

Bell Atlantic
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Susanne Guyer
Executive Director,
Federal Regulatory Affairs

August 31, 1998

EX PARTE OR LATE FILED



Ex Parte

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

RECEIVED

AUG 31 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: **CC Docket No. 96-262**

ORIGINAL

Dear Ms. Salas:

On Friday, August 28, Mr. E. Shakin, Ms. M. Vaden, Ms. M. Marinos, Mr. J. Bosley, and I, representing Bell Atlantic, met with Ms. T. Preiss, Mr. R. Lerner, Mr. J. Atkinson and Mr. A. Goldschmidt of the Competitive Pricing Division of the Common Carrier Bureau. The purpose of the meeting was to discuss state price regulation plans in the Bell Atlantic region. The Bell Atlantic representatives also discussed the appropriate method for removing services from price caps.

The attached charts were used during the discussion.

In accordance with Section 1.1206(a)(1) of the Commission's rules, an original and one copy of this notice are being submitted to the Secretary.

Sincerely,

A handwritten signature in cursive script that reads "Susanne Guyer".
Susanne Guyer

Attachment

cc:	J. Bosley	A. Goldschmidt
	M. Marinos	R. Lerner
	E. Shakin	T. Preiss
	M. Vaden	

No. of Copies rec'd 0+1
List ABCDE

Bell Atlantic – Summary of Pricing Flexibility in State Regulatory Plans						
State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services		Exog
				Basic Services	Discretionary Services	Chgs
Delaware	CSPs allowed for competitive services.	MTS /WATS/800, operator, and Hi-Cap are competitive. Competitive Services have full pricing flexibility subject to a price floor. Prices may be set by contract on short notice.	Discretionary service rates may be increased up to 15% per year.	Basic rates subject to: GDP-PI – 3%. No decreases to less than incremental cost. ISDN, Switched and Special Access are basic.	Rates may be increased up to 15% per year. Most Private Line services are discretionary.	Yes
Maryland	Customer Specific Pricing (CSP) allowed for customers with > \$40K annual expense. CSPs filed under seal with Commission.	New Services WATS/800, Centrex and Hi-Cap PL and Special Access are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	Revenue neutral changes allowed but no price may increase > 10%.	Basic residence, basic business, and switched access capped to 1/2000 Then Price Cap Index applies: (GDP-PI - [3 year running average of the CPI] +/- exogenous changes). Foregone increases may be taken in future.	Prices subject to Price Cap Index. Revenue neutral changes allowed but no price may increase >10%. Foregone increases may be taken in the future. ISDN, MTS, and Lo-Cap PL and Special Access are discretionary.	Yes
Maine	Special contracts may be offered to any customer with realistic competitive alternative at lower prices. Contract must cover marginal costs plus some contribution. Contracts do not need prior Commission approval.	Genuinely new services, Private Line, Hi-Cap and ISDN are treated as competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	Core Discretionary service prices can be changed to any level but can only be increased at annual filing. No price constraints on non-core services except for marginal cost floor.	Basic (Core) prices subject to formula: GDP-PI - 4.5% +/- exogenous changes. MTS, WATS/800, switched access are core-discretionary and subject to formula.	Core Services, basic and discretionary, are subject to PRI in aggregate and collectively increases cannot exceed PRI. Discretionary service prices can be changed to any level but can only be increased at annual filing.	Yes

Bell Atlantic – Summary of Pricing Flexibility in State Regulatory Plans						
State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services		Exog
				Basic Services	Discretionary Services	Chgs
Rhode Island	CSPs allowed for network usage, private lines and data. Centrex services may be offered under Large System Specific Pricing Plans. PUC has 30 days to rule on tariff.	MTS, WATS/800, Hi-Cap, Private Line and ISDN are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	No individual discretionary service rate increase may be more than 2*CPI or 5% whichever is less.	Basic rates subject to formula: GDP-PI – 4% +/- exogenous changes. No individual increases for basic services greater than CPI or 5% whichever is less. Basic exchange rates are capped until 1/15/2000, and the initial period charge for local payphone calls is capped until 12/31/2000.	Prices increases subject to price cap formula: 2*GDP-PI - 4% +/- exogenous changes. No service rate increase > 2*CPI or 5% whichever is less. No decreases required. Switched and special access are subject to a price cap of GDP-PI +/- exogenous. No rate element increase > 2*CPI or 5% whichever is less.	Yes
Virginia	Individual Case Basis (ICBs) contracts where a competitive offer has been demonstrated. Prices subject to price floor test.	WATS/800 are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	One increase per discretionary service permitted per year. Increase may be no more than .0083 times the number of months since the last increase (10% for 12 months) up to 25%.	No increases to basic services to 1/2001. Then increases permitted at 1/2 GDP-PI. ISDN, MTS, Switched and Special Access, PL (except DDS) are basic.	One increase per service permitted per year. Increase may be no more than .0083 times the number of months since the last increase (10% for 12 months) up to 25%. Hi-Cap and DDS are discretionary.	No
Washington, DC	CSP allowed for basic, discretionary and competitive services. Copy of CSP must be filed with data to show rates are > long run incremental cost.	Hi-Cap, DDS and Centrex are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	Maximum increase for a basic service is 5%. Individual discretionary service rate increases may be up to 15% annually.	Basic business and other basic services subject to price cap index of GDP-PI - 3%. Basic residence DTL and usage capped to 1/00. Max. increase for basic service is 5%. If PCI > 5%, PCI is maximum increase.	Individual service rate increases may be up to 15% annually. ISDN and PL are discretionary.	Yes

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State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services		Exog
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West Virginia	ICB pricing allowed for large business customers.	MTS, WATS/800, Centrex features, Private Line and Hi-Cap are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.	Individual discretionary service rate increases may be up to the cumulative increase in the CPI since the beginning of the plan. Basic rates may be lowered for specific customers or in specific exchanges to respond to competition.	Basic rates capped to 1/01. Switched and Special Access rates may decrease but may not increase until 2/00. Basic rates may be lowered for specific customers or in specific exchanges to respond to competition.	Individual service rate increases may be up to the cumulative increase in the CPI since the beginning of the plan. Centrex, FX, PBX Trunks and ISDN are discretionary.	Yes

Bell Atlantic -- Summary of Pricing Flexibility in State Regulatory Plans					
State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services	Exog Chgs
Massachusetts	Customer specific pricing (CSP) permitted for all services in response to competitive bid. Contract pricing for Centrex services. CSPs must be filed with DPU and subject to price floor test.	Centrex is competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices may be set by contract or tariff on short notice.		Core services subject to price index of: GDP-PI - 4.1%. Certain basic local residential rates frozen. MTS, WATS/800, ISDN, Private Line, switched and special access are considered core services and subject to the price index.	Yes
New Jersey	Customer specific pricing (CSP) contracts for packaging and discounting on all intraLATA services	MTS/WATS/800, Centrex and Hi-Cap Services (DS1, DS3, DDS, DCS, FR, SMDS and Special Access) are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices set by contract or tariff on short notice.	Promotional filings permitted on 1 day's notice. Term and quantity discounts for selected services.	Per Stipulation no future rate adjustments under formula. Only revenue neutral filings are permitted. Residence DTL and usage capped at initial level. Term and quantity discounts in tariffs for selected services. Formula was GNP-PI (fixed rates) - 2%. Intrastate ROE > 13.7% shared with customers.	Yes
New York	New services, Business network access (DTL), Centrex, Hi-Cap may also be offered under Individual Case Basis (ICBs) contracts. ICBs are filed with PSC		Revenue neutral changes may be made to all non-basic services. Min./Max. rates are established for non-basic services.	Amount of annual increase = (GDP/IPD-4%)*(12 month non-basic intrastate regulated revenues). (GDP-IPD is the GDP Implicit Price Deflator.) No rate increases for basic services. (Residential network access (DTL) and local usage, all Lifeline and Business local usage.) Individual service price increases capped by GDP/IPD+5%+/- exogenous.	Yes

Bell Atlantic -- Summary of Pricing Flexibility in State Regulatory Plans					
State	Contract Carriage	Competitive Services	Other Pricing Flexibility	Pricing Rules for Remaining Services	Exog Chgs
Pennsylvania	Customer specific pricing (CSP) allowed for toll services for business customers with > \$40K in annual TBR. ICBs allowed in response to RFPs for business customers with > \$500K in TBR. CSPs and ICBs filed on 1 day's notice subject to price floor test.	Hi-Cap, Centrex Paging, Repeat and Speed calling, Billing services and Directory Advertising are competitive. Competitive Services generally have full pricing flexibility subject to a price floor. Prices set by contract or tariff on 1 day's notice.	Revenue neutral price changes are permitted for all non-competitive services on 60 day's notice. Promotional filings are permitted on 10 day's notice.	Prices for non-competitive services capped at GDP-PI- 2.93%. No increases for protected services prior to 1/00 Protected categories: 1) residence local exchange, 2) business local exchange, 3) switched access, and 4) special access. Price cap reductions pro-rated to protected services.	Yes

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Vermont	CSP allowed for Centrex services. Contract must be filed with the DPS and rates must be > TELRIC. Contracts reviewed within 30 days			No incentive plan.		
New Hampshire	CSP allowed in response to competitive offer in an RFP. Rates must be > incremental cost and price floor test is required.			No incentive plan.		

Proposed Method to Implement Removal of Services From FCC Price Cap Plan

The removal of services from price caps is a straightforward process which can be done without any impact on the rates of services that remain under price caps. The carrier simply removes the service while leaving the index of allowable prices (PCI) and the index of actual prices (API) unchanged. In future filings, the demand for price cap service is reduced by the level of demand associated with the removed services. The Commission has already set the precedent for this method.

In its Report and Order in CC Docket 93-197, Revisions to Price Cap Rules for AT&T Corp., released January 12, 1995, the FCC ordered the removal of commercial long distance services from AT&T's Basket 1 (residential and small business services), and addressed how the services were to be removed in paragraph 30:

"Under our rules, removal of services and their associated revenues from Basket 1, by itself, does not cause any of the various indexes to change. This is because AT&T is only required to update the PCI as either part of the annual price cap filing or to reflect the effect of midyear access and exogenous cost changes. Also, AT&T is only required to update the API and relevant SBIs in connection with price cap tariff filings proposing rate changes. This Order does not require any such rate changes to be made."

Incumbent Local exchange carriers (ILECs) themselves have already removed one set of services from the traffic sensitive basket when they established the trunking basket. The FCC's Second Report and Order in CC Docket 91-213 (Transport Rate Structure and Pricing), released January 31, 1994, instructed ILECs to create a new "trunking" basket by combining switched local transport services, which were in the traffic sensitive basket, with services in the special access basket. When the transport services were removed from the traffic sensitive basket, the basket PCI and API, as well as the non-transport service categories' SBIs, remained at their same levels and were not adjusted to reflect the removal.

In the filing removing approved services from price cap regulation, the base period demand associated with the removed services in relevant geographic areas would be subtracted from the current base period demand. This removal would affect only the calculation of base period revenues. A change in base period revenues will not impact the PCIs, APIs or SBIs unless there is also a change in exogenous costs or proposed rates, which will not be the case in the forbearance filings.

The PCI, which represents the maximum allowable overall price level of services in a basket, is equal to the previous PCI increased or decreased by the percent change in inflation minus productivity and exogenous cost changes which are incorporated as a percent of base period revenues. The PCI changes only in an annual filing, which adjusts rates for inflation, productivity, and exogenous changes, or when exogenous cost changes are incorporated in mid-year filings. As no changes to these factors would be incorporated in the filing, the current PCI would remain unaffected by a change in base period revenues.

The API, which measures actual price changes, also would not change with the removal of services in a filing with no rate changes proposed. While this is easily understood conceptually, it can also be demonstrated through application of the API formula. The proposed API equals the current API times the proposed change in prices, measured by the sum of the revenue-weighted proposed price change ratios for each element in the basket. When some demand and revenues are removed from price caps, the total base period revenues, which

are the denominator in the revenue weights, become smaller, increasing the percent of revenues associated with each of the services that remain under price caps. This change in weighting, however, has no effect on the current API, as long as no rate changes are proposed. This is because the revenue weights are multiplied by the ratio of proposed/current price for each rate element, which equals 1 when no rate changes are proposed. The result is a set of new revenue weightings each multiplied by one, that when added up still sum to 1.0. The existing API multiplied by 1.0 yields the same value for the proposed API. In any subsequent filing that would propose rate changes, the new revenue weightings would come into play as they become the basis for calculating proposed changes in the API. These new revenue weightings would actually result in greater protections for the rates of remaining services as each service would comprise a higher proportion of total revenues remaining under price caps.

The SBIs for the service categories work in a manner similar to the APIs. Like the API, the SBIs are also a function of the relative change in actual rates, so that if there is no rate change in rates of services remaining under price caps, there is no change in the SBI.

Since the existing price cap indices are unchanged when services are removed in the manner described above, there is no additional "headroom" created by this process. The ratio of actual price levels (API) to maximum allowable price levels (PCI) remains the same. In dollar amounts, some headroom is actually lost (when headroom previously existed). This is because the change in headroom equals the change in actual revenues times the PCI divided by the API minus one. The headroom that remains reflects the same PCI/API relationship, but as applied to the revenues remaining. In the case where there is no headroom prior to removal of services, i.e., the $API=PCI$, then the $PCI/API=1$ and no matter what the magnitude of the dollar amounts associated with the services removed from price caps, there will be no headroom made available for the remaining services under the proposed methodology.